

**Statement by
Mike Johanns
Secretary of Agriculture
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations, U.S. House of Representatives
February 15, 2006**

Mr. Chairman and distinguished members of this Committee, I am pleased to appear before you to discuss the fiscal year (FY) 2007 budget for the Department of Agriculture (USDA).

I am joined today by Deputy Secretary Chuck Conner; Scott Steele, our Budget Officer; and Keith Collins, our Chief Economist.

It has been a year since I was given the honor to serve our country as Secretary of Agriculture. It has been an eventful and challenging year. We have expanded farm export opportunities through new trade agreements; re-opened beef export markets that were closed after finding Bovine Spongiform Encephalopathy (BSE); responded immediately to severe natural disasters; and witnessed continued strength in the farm economy.

A major priority has been working to achieve growth in the farm economy through trade. We continue to open foreign markets to U.S. agricultural exports. Since 2001, the Administration completed free trade agreements with 14 countries, including the recently completed agreements with Peru and Oman and the Central America-

Dominican Republic Free Trade Agreement (CAFTA-DR). The agriculture industry estimates that CAFTA-DR could boost our farm exports by \$1.5 billion. Negotiations for free trade agreements with a host of other important markets are continuing.

During the past year, we also have increased our efforts to reform agricultural trading practices. The United States presented an ambitious proposal to advance the World Trade Organization agriculture negotiations and unleash the full potential of the Doha Development Agenda. Reforming global agriculture trade will create new jobs and promote economic development. Our goal is to open new markets by reducing or eliminating unfair competition from production and trade distorting agricultural subsidies and import barriers. Our ambition has not yet been matched by other countries, but we remain committed to achieving a successful outcome.

Another priority has been our efforts to re-open overseas markets for U.S. beef and beef products. We have achieved a great deal of progress. We have regained at least partial access to 26 markets. As you know, recently a shipment to Japan did not comply with the terms of our export agreement. We are working aggressively to secure a resumption of trade in the near future.

During 2005, we also had to confront other serious issues, such as hurricanes and other natural disasters, the threat of an avian influenza pandemic, and rising energy costs. USDA has played a significant role in responding to these challenges and has made a tangible and positive difference in American lives.

President Bush and I are very proud of the efforts USDA employees have made to provide assistance throughout the Gulf Coast Region in the immediate aftermath of recent hurricanes. These employees helped to rescue more than 600 survivors in Louisiana. We made available more than 22 million pounds of food and 2 million pounds of baby formula for use by the Red Cross, Salvation Army, and other organizations. USDA assisted over 10,000 evacuees obtain temporary housing in 45 States. USDA also aided in the transport of over 13,000 evacuees and our employees fanned out across the region to clear debris from farms, ranches and other watersheds. During the initial days and weeks following the storm, USDA worked closely with the Federal Emergency Management Agency to set up and support 80 disaster recovery centers in Louisiana and Mississippi. The Forest Service played a critical role by utilizing its incident management abilities, managing evacuation centers and base camps, providing logistical support, clearing roadways, helping with search and rescue operations, and operating mobilization centers and trailer staging areas.

These are just a few of the ways that USDA was able to provide immediate assistance to that region. But there still remains a great deal to be done to normalize life for those struggling to take back their homes, their farms or ranches, and their communities. That is why I was pleased to announce on January 26, 2006, that based on Congressional action and the use of existing authorities, USDA has made available \$2.8 billion to assist those impacted by the hurricanes. Of this amount, \$1.2 billion will be made available to agricultural producers through various programs. In addition,

\$1.6 billion will be used to restore homes and rural communities. This additional funding brings total USDA aid to hurricane disaster victims to more than \$4.5 billion since September 2005.

2007 Budget

The President's 2007 budget for USDA meets our most important priorities, while exercising the kind of fiscal discipline that is absolutely necessary to reduce the Federal deficit. Reducing the deficit is a critical part of the President's economic plan. It will strengthen the economy and create more jobs. Farmers, ranchers, and rural citizens know the importance of a healthy economy, which raises household incomes and increases demand for their products.

Farmers, ranchers, and rural citizens also know that the deficit and resulting burden of debt have a profound impact on the economy and, thus, on their way of life and the ability of future generations to participate in agriculture. In the past few months, I had the opportunity to participate in over 20 Farm Bill forums. It provided me the opportunity to meet many producers and hear their ideas on farm policies and the economy. One aspect of the Farm Bill forums focused on the development of farm policy that supports future generations of farmers and ranchers. During these forums, I discussed with producers and community leaders how deficits increase the national debt and debt service costs and displace private consumption and investment, which can be roadblocks to future generations trying to enter agriculture. Producers across

the country applauded us for that focus and encouraged us to take down roadblocks that stand in the way of young people. We cannot – on one hand – close our eyes to the deficit – while on the other hand claim to be supporting future generations of producers.

USDA recognizes the overriding need to reduce the Federal deficit, and shares the responsibility of controlling Federal spending. There are proposals in the budget for USDA that will produce real savings in both mandatory and discretionary spending. With that said, the President's 2007 budget request for USDA does meet the Nation's priorities by growing the farm economy through trade; protecting America's food and agriculture; supporting sound land management practices and conservation; providing nutrition assistance to the needy at home and abroad; and creating economic opportunity in rural America. It also makes Government more effective by improving management and accountability and by eliminating, reforming, or phasing out programs that are not cost-effective or do not show measurable results.

The President's 2007 budget, which was released on February 6, indicates that USDA expenditures are estimated to decrease from about \$96 billion in 2006 to nearly \$93 billion in 2007. For the Department's discretionary budget, the overall budget authority request is \$19.7 billion. This compares to \$21.9 billion provided in 2006. There are two main reasons for these reductions. One is that we assume we will not need the emergency disaster assistance funding and other emergency supplemental funding that was needed in 2006. The second reason is proposed program reductions,

which include some legislative changes. The discretionary appropriation request pending before this Committee, which does not include the Forest Service, is \$15.6 billion.

I would now like to focus on some specific program highlights.

Pathogenic Avian Influenza (AI)

For more than two decades, USDA has worked to prepare for and prevent an outbreak of dangerous strains of AI in our country. The greatest concern is the potential for highly pathogenic AI to develop into a human pandemic. We appreciate the \$91.4 million in emergency supplemental funding provided in December 2005. Those funds are being used for specific one-time activities aimed at controlling the disease abroad and keeping it away from U.S. borders; enhancing surveillance of wildlife and domestic poultry; improving diagnostics; and enhancing preparedness.

The 2006 Appropriations Act made \$16 million available for on-going programs to deal with low pathogenic AI and other AI research. Low pathogenic AI is of concern for its potential costs to the poultry industry and potential ability to mutate into highly pathogenic AI. The 2007 budget requests a total of \$82 million for AI, an increase of \$66 million over the amount appropriated in 2006. Of this amount, \$57 million is related to highly pathogenic activities, including: surveillance and diagnostics work; preparedness and response efforts; and international veterinary capacity building. An

additional increase of more than \$6 million is requested for the development of methods to detect AI in the environment and further AI research, including development of poultry vaccines. An increase of \$3 million is requested to expand activities related to the program for on-going low pathogenic AI.

Food and Agriculture Defense Initiative

In order to protect American agriculture and the food supply from intentional terrorist threats and unintentional introductions, the budget proposes \$322 million for USDA's part of the President's Food and Agriculture Defense Initiative, which is 60 percent of total governmentwide funding for the initiative. Funding for ongoing programs includes a \$127 million increase, or 65 percent above 2006. This does not include funding for construction of the Ames, Iowa facility for animal research and diagnostics, which was fully funded in 2006. Of the total amount, an increase of about \$30 million for Food Defense would enhance the Food Safety and Inspection Service's (FSIS) ability to detect and respond to food emergencies and for USDA research agencies to conduct related research. For Agriculture Defense, the budget includes an increase of about \$97 million to improve the Animal and Plant Health Inspection Service's (APHIS) ability to safeguard the agricultural sector through enhanced monitoring and surveillance of plant and animal health, including wildlife; improve response capabilities, including provisions for the National Veterinary Stockpile; and further research on emerging and exotic diseases.

Energy

I have heard from farmers and ranchers as I traveled around the Nation about the burden of the high cost of energy. We are taking action to help farmers, ranchers, and rural businesses reduce their energy consumption and make alternative fuels more available. USDA is providing technical assistance and incentives for conservation practices that can result in substantial energy savings. The Natural Resources Conservation Service has recently provided an online tool that clearly demonstrates how costs can be reduced by using alternative tillage practices. In addition, I have directed the Farm Service Agency (FSA) to maximize the use of our guaranteed and direct farm loan programs to help eligible producers who face credit challenges due to increased energy-related operating costs. Because it is likely that energy prices will continue to remain high and fluctuate in the future, the Risk Management Agency will also examine risk management tools that can help farmers limit the negative impact of energy cost increases. To make sure that USDA is effectively using its resources to address energy issues confronting U.S. agriculture, I have recently announced a comprehensive energy strategy to help producers with high energy costs and to coordinate USDA's energy initiatives.

These investments include: research and development, farmer and rancher education programs and using public lands to facilitate the generation and transmission of energy. We are seeking increases in research and development (R&D) and farmer and rancher education programs. We are also targeting renewable energy investments

in Rural Development programs where we anticipate making loans and grants of \$250 million or more depending on specific proposals received. USDA is continuing its successful biomass research and development partnership with the Department of Energy in 2007. Past projects funded through this collaborative effort have focused on improving the conversion of switchgrass and other cellulosic materials to ethanol as a replacement for gasoline. These R&D investments will pay off as the efficiency and cost effectiveness of using switchgrass increases.

Farm Commodity Program Spending

As part of the President's program to exercise fiscal discipline and reduce the deficit, the budget proposes, once again, that the farm commodity programs funded through the Commodity Credit Corporation (CCC) contribute to the governmentwide deficit reduction effort. Despite record levels of net cash farm income and record agricultural exports, commodity subsidies are significant and near record highs. Payments are at the highest since the enactment of the 2002 Farm Bill. Compared to the original 2002 Farm Bill estimate, lower than expected expenditures from 2003 to 2004 are estimated to be offset by much higher net outlays during 2005 through 2007. Government farm support from 2005 to 2007 is at historically high levels. This recent trend reflects higher than expected program costs that are raising the deficit.

Since the recent Reconciliation Act achieved only very limited savings in CCC programs, the 2007 budget proposes legislative changes similar to the ones included in

the 2006 budget. The proposals, which are spread across commodity sectors, include: reducing farm program payments across the board by 5 percent; reducing the payment limitation to \$250,000; operating the dairy price support program at the least cost; and applying small marketing assessments to sugar and dairy.

Similar to last year, these proposals are designed to work within the existing structure of the 2002 Farm Bill to achieve savings of about \$1 billion in 2007 and about \$7.7 billion over 10 years. Even with the proposed reductions, CCC expenditures in 2007 are projected to remain \$7 billion above the estimates made when the Farm Bill was enacted.

Farm Program Delivery

Recognizing the importance of our farm programs to the livelihood and ongoing operations of farmers and ranchers throughout the Nation, we are continuing to review the farm program delivery system to ensure we are providing the highest level of customer service. In addition to the funding needed to support an adequate level of staffing to deliver program benefits in a timely manner, our budget proposes resources to make the IT investments that are critical to modernizing the delivery of these programs. I appreciate the Committee's support for efforts that have been made in recent years to design and implement a common computing environment (CCE) that allows the service center agencies to communicate via the internet and take advantage of shared services. However, critical needs remain in updating the so-called legacy

farm program delivery systems that are currently operated with decades-old software and hardware that is no longer produced. It is imperative that these systems be updated so they can also take advantage of the CCE, a modern web-based system, and make the fullest use of investments being made to improve geographic information systems and data. The budget proposes \$14 million to continue an effort to enhance the efficiency of program delivery by redesigning business processes and developing the IT systems to carry out those processes. I would appreciate the Committee's favorable consideration of this proposal.

Crop Insurance

Crop insurance is designed to be the primary Federal risk management tool for farmers and ranchers. Crop insurance expenditures are expected to grow by more than 50 percent between 2001 and 2007 with the implementation of crop insurance reforms in 2000, the expansion of the program to new crops, and the development of new types of coverage. Despite this growth, since 2000, four *ad hoc* disaster programs have been authorized, covering six crop years. These *ad hoc* payments add up to over \$9 billion. The continued reliance on disaster assistance stems, in part, from the low coverage level of catastrophic crop insurance (CAT), which provides a maximum of 27.5 percent of the crop value for a total crop loss. When natural disasters occur, that low level of protection creates the demand for additional disaster assistance.

In continuing the Administration's efforts to more effectively budget and administer crop disaster programs, the 2007 budget repropose changes included in the 2006 budget to encourage producers to purchase more adequate crop insurance coverage by tying the receipt of direct payments or any other Federal payment for crops to the purchase of higher levels of crop insurance. This change would ensure that the farmer's revenue loss would not be greater than 50 percent. Other changes include making catastrophic coverage more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reducing delivery costs. The combination of changes is expected to significantly improve the program and save the Government approximately \$140 million per year, beginning in 2008. In total, this change should ensure that the majority of producers have crop insurance and that the minimum coverage level is sufficient to sustain the producer in times of loss.

The 2007 budget includes about \$81 million in discretionary funding to administer the Federal Crop Insurance Program, compared to about \$76 million for 2006. In support of our efforts to strengthen oversight and improve management efficiency, the budget includes funding for the replacement of a decade old IT system that has reached the end of its useful life. Funding is also included for additional staffing needed to reduce fraud, waste and abuse in the crop insurance program. Additionally, a legislative proposal will be submitted to collect a participation fee from insurance companies to help share in the cost of modernizing the existing IT system beginning in FY 2008.

Trade

As I mentioned, a top priority has been to restore access to the Japanese and other markets for American beef overseas. Having achieved positive results, we are disappointed that the Japanese market has temporarily closed again. The failure to meet all of the requirements of our export agreement with Japan is unacceptable. We are taking this matter seriously, recognizing the importance of our beef export market, and we have taken swift and firm action to address the situation.

I have announced a series of follow-up actions we are taking to address this situation and have outlined these actions in discussions with Japanese officials, including the Minister of Agriculture, Forestry, and Fisheries. A USDA delegation, led by Under Secretary for Farm and Foreign Agricultural Services, J.B. Penn, visited Japan immediately after the suspension and discussed these efforts in meetings with Japanese Ministry officials.

We look forward to an expedited review of the situation by the Japanese Government and the resumption of beef trade in the near future. It is also worth noting that, despite the problems we have encountered with Japan, we are making progress in reopening other markets. Both Hong Kong and Taiwan have reopened their markets; Korea has announced plans to resume imports; and Singapore has also announced its intention to resume trade.

Expanding access to global markets is important for all U.S. food and agricultural products, and plays a critical role in our efforts to ensure a prosperous future for America's farmers and ranchers. Our budget proposals for 2007 support our continued commitment to trade expansion activities. Increased funding is provided for the Foreign Agricultural Service (FAS) to maintain its overseas office presence and continue its representation and advocacy activities on behalf of American agriculture.

A new FAS Trade Capacity Building initiative is funded for technical assistance and training activities that will assist developing countries to strengthen their agricultural policy-making and regulatory systems and become better trading partners. By assisting these countries to adopt policies that meet World Trade Organization standards and adopt regulatory systems that are transparent and science-based, we will improve access for U.S. products to their markets. Also, by enhancing their ability to benefit from trade, we encourage them to become more forthcoming and supportive in market access negotiations. These activities would complement the steps APHIS will take to open offices in strategic foreign locations to address technical sanitary and

phytosanitary issues that can impede trade between the United States and other countries.

For the foreign food assistance programs, the budget places increased emphasis on meeting the highest priority emergency and economic development needs. Funding for the McGovern-Dole International Food for Education and Child Nutrition Program is maintained at this year's level, with a modest increase in participation expected. The program is helping children in countries with severe needs in education and nutrition, such as Afghanistan. Over a five-year period, USDA is providing over \$50 million of assistance through the McGovern-Dole Program to Afghanistan where it is helping to build schools, improve attendance, and feed about 60,000 students each year.

Food for Progress programming carried out with CCC funding is projected to increase slightly in 2007. The program provides assistance to developing countries and emerging democracies that have made commitments and are taking steps to introduce and expand free enterprise in their agricultural economies.

The budget would also enhance our ability to respond to emergency situations overseas in which food aid is critical to preventing famine and saving lives. In light of a heightened demand for emergency food aid in recent years, all funding for P.L. 480 food assistance is requested for the Title II donations program which is increased by \$80 million. To help improve the timeliness, efficiency, and effectiveness of the U.S. Government's response to emergency situations, increased flexibility is requested in the

purchasing of Title II commodities. The budget proposes that the Administrator of the Agency for International Development (AID) have the authority to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed, such as neighboring countries.

Food Safety

The Nation's current food safety inspection system has demonstrated that our food supply is among the safest in the world. Recent data released by the Centers for Disease Control and Prevention continues to show improvements based on historical reductions in the incidence of foodborne illness. The continued reduction in illnesses from pathogens like *E. coli* O157:H7 is a tremendous success story and USDA is committed to continuing this positive trend in the future. These results demonstrate that we are moving in the right direction. We have increased the focus of our policies on the goal to reduce human foodborne illness by measuring the prevalence and types of food safety failures and using this knowledge to focus resources and attention where the risks are the greatest. Through these actions, we are protecting the public's health through a safer food supply.

The 2007 budget provides for continued protection of the Nation's supply of meat, poultry and egg products and includes a program level of \$987 million for FSIS. This is an increase of \$35 million over 2006. Approximately half of the increase in funds is for pay, including monies required to maintain Federal support of State inspection

programs to meet the demand for inspection services. The remaining amount is for program changes, including funding to allow FSIS to move towards a more robust risk-based inspection system.

In order to take further steps towards a more enhanced risk-based inspection system, funds are requested to develop risk-based verification and enforcement strategies that take into account the hazards posed by products and how well establishments are controlling those hazards. This would include additional microbiological sampling, inspector training, and the creation of an establishment database. Information from these initiatives will enable FSIS to wisely allocate resources to priority areas and provide increased understanding of which food safety systems prevent foodborne illness and promote the public's health. In addition, funding is requested to increase the speed at which the agency collects, analyzes, and reports *Salmonella* testing data, which will improve the agency's response to outbreaks of foodborne illness.

The budget also requests funding to expand the Food Emergency Response Network (FERN) in support of the Food and Agriculture Defense Initiative. With this funding FSIS will continue to develop the network of food laboratories and the result will be an increase in the capability of a network of coordinated Federal, State and local laboratories to handle large volumes of testing that would be needed for biosurveillance or in the event of a widespread food emergency.

For FSIS, the budget requests an appropriation of \$863 million and \$124 million in existing fees. In addition, the budget includes \$105 million that would be derived from new user fees to recover the cost of providing inspection services beyond an approved 8-hour-primary shift.

Conservation

The 2002 Farm Bill represented an unprecedented commitment to conservation. The 2007 budget continues to support this commitment with a record level \$4 billion request in mandatory funding to expand enrollment in these programs by an additional 23 million acres. Under the proposal, USDA would provide conservation assistance on 197 million acres, the greatest amount of conservation assistance in history.

Within the total amount, the budget proposes over \$400 million for the Wetlands Reserve Program (WRP), an increase of \$153 million, or 61 percent over 2006. The projected WRP enrollment for 2007 would be the largest ever, involving 250,000 acres, and will bring the total acreage enrolled in the program to over 2.2 million acres. The WRP is the principal supporter of the President's goal to restore, protect, and enhance 3 million acres of wetlands over five years beginning in 2004.

Funding for the Conservation Security Program would be increased by \$83 million, or 32 percent, to continue to extend the program to additional watersheds in 2007. Finally, the 2007 budget supports a net increase in enrollment of 2.7 million acres in the Conservation Reserve Program (CRP), which would bring total program

enrollment to 38.9 million acres by the end of 2007, a 7 percent increase in coverage. CRP funding represents more than one-half of the total for all Farm Bill conservation programs.

The 2007 budget also includes \$788 million in discretionary funding for on-going conservation work. This is a decrease of \$207 million below the 2006 enacted level and reflects the realignment of the Administration's priorities to direct limited conservation funding to the highest priority natural resource concerns. USDA will be able to deliver high quality and timely technical assistance to farmers and ranchers to address natural resource concerns on their operations. The budget does not request funding for watershed operations and planning, Grazing Lands Conservation Initiative, and earmarked projects. The budget also proposes to reduce the number of Federal coordinator positions funded under the Resource Conservation and Development (RC&D) program, for a savings of \$25 million. Under this proposal, the number of authorized RC&D areas would be maintained at the current level of 375 but coordinators will be responsible for providing assistance to multiple areas.

Rural Development

The 2007 budget includes \$14.4 billion in direct loans, loan guarantees and grants to improve the economic opportunities and quality of life in rural America. This assistance will be used to finance rural businesses, electric and telecommunications facilities, water and waste disposal projects and other community facilities; provide homeownership opportunities; and revitalize USDA's portfolio of multi-family housing

projects. Most of the on-going rural development programs are maintained at current levels. There is a \$3.6 billion reduction in 2007, which is due primarily to the exclusion of \$1.6 billion in 2006 supplemental emergency funding for the Gulf Coast hurricanes and \$1.5 billion for a 2002 Farm Bill program to guarantee notes of private sector electric and telephone borrowers.

The on-going electric and telecommunications programs are funded at the anticipated level of demand, over \$4.9 billion in direct loans. About \$200 million of this amount is expected to be used for new power supply projects for renewable energy that will support the President's energy policy.

The community facilities program provides direct loans, guarantees, and grants to finance essential community facilities, with priority given to health and safety facilities. The 2007 budget provides \$297 million in direct loans, \$208 million in guarantees, and \$17 million in grants for this program – the same as was available for 2006. This level of funding will support over 560 new or improved health care facilities, child care, fire and emergency services and other facilities lacking in rural America.

The proposed budget for the water and waste disposal programs would support almost \$1.1 billion in direct loans. The program would be supported through loan subsidies and grants at about the same level in 2006 - \$514 million for 2007 compared to \$525 million for 2006. However, a greater portion of the subsidy would be applied to reducing interest rates charged to borrowers rather than providing grants. For most

communities, which normally receive a combination of loan and grant assistance, the reduction in interest rates would be of greater benefit in terms of lowering the overall debt servicing costs of their projects, than they would otherwise receive from an equivalent amount of grant.

The 2007 budget would support \$4.8 billion in direct and guaranteed loans for single-family housing, about the same level as available for 2006. This level of assistance will provide homeownership opportunities for nearly 41,000 rural families.

The business and industry program is maintained at a level of about \$1 billion in loan guarantees. The value-added program is also maintained at its current level of \$19 million in grants. Overall, the rural development business programs are expected to create or save over 56,000 rural jobs.

The 2007 budget repropose the Administration's initiative to revitalize its portfolio of multi-family housing projects, which are home to close to half a million low-income families. A recent Supreme Court decision allows project sponsors to prepay their loans and convert their projects to uses other than low-income housing, putting tenants at risk of higher rents and potential loss of housing. A priority under the Administration's initiative will be on providing housing vouchers to protect the rents of tenants of projects that are withdrawn from the portfolio. The Administration will also pursue enactment of legislation it has already submitted to Congress to authorize debt

restructuring and other incentives for project sponsors to remain in the program and make necessary repairs.

Research

The 2007 budget funds the highest priority research issues facing American agriculture and increases the use of competition to improve the quality of research. The budget includes a \$66 million increase for the National Research Initiative, the Nation's premier competitive, peer-reviewed research program for fundamental and applied sciences in agriculture. The increase includes funding for high priority initiatives in food and agricultural security, gene mapping, the ecology and economics of biological invasions, plant biotechnology and water security. The budget also includes \$107 million in increases for high priority research conducted by the Agricultural Research Service (ARS) scientists in areas such as food and agricultural defense, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention. These lines of investigation have great potential to benefit producers and consumers; assure an abundant, safe, and inexpensive supply of food; and ensure the preservation of our natural resource base.

While the 2007 budget continues overall funding for both the Hatch and McIntire-Stennis programs at the 2006 appropriated level, the budget proposes an increase in the use of competition to improve the quality of USDA supported research. The 2007 budget includes a proposal to modify the Hatch and McIntire-Stennis formula programs

so that over half of the funds would be competitively awarded by 2011. Under the proposal, the Hatch formula program would be modified by expanding the multi-State research component from the current base of 25 percent to about 55 percent of total Hatch funding. In 2007, 35 percent of Hatch funds will be awarded competitively to multi-State/multi-institutional projects. Over the course of the next four years, the remaining multi-State formula funds would be phased into competitive funding through an additional 5 percent increase each year as existing projects are completed. Therefore, by 2011, about 55 percent of funding under the Hatch program will be for competitively awarded multi-State projects and about 45 percent would be allocated as formula funds.

The 2007 budget also modifies the McIntire-Stennis formula program by creating a multi-State research program that will comprise 59 percent of program funding. The proposal calls for all McIntire-Stennis multi-State funds to be distributed through competitively awarded grants in 2007. These proposals take into account the expressed concerns of USDA partners in the land grant community, including smaller institutions, regarding the proposal in the 2006 budget. As a result, this new approach would sustain the use of Federal funds to leverage non-Federal resources, maintain program continuity, facilitate responsiveness to State and local issues, and leverage and sustain partnerships across institutions and States. Our intention is to craft the details of the programs in consultations with our land grant and forestry college partners.

Nutrition Assistance

The budget contains sufficient resources to fully fund expected participation, food cost inflation and contingency funds for the Department's three major nutrition assistance programs -- Food Stamps; Women, Infants and Children (WIC); and Child Nutrition. Participation levels fluctuate with economic conditions and the budget keeps pace. WIC participation is expected to grow slowly in 2007 to a total of 8.2 million participants. Food Stamp participation is expected to decrease about 4 percent from the 2006 projection to about 25.9 million in 2007 as people affected by the hurricanes in the Gulf States get back on their feet. School Lunch participation is estimated to grow about 2 percent to keep pace with the growing student population, as it has in recent years, to a new record level of 30.9 million children per day.

For Food Stamps, legislation will be proposed that would exclude all qualified retirement savings accounts from eligibility determinations regardless of how other programs treat them. By 2009, this would allow about 100,000 additional people to participate who otherwise would have been ineligible unless they spent down their retirement savings. This would add an estimated \$48 million in costs for 2007 and about \$146 million in 2009 when fully implemented. The 2007 budget also repropose legislation to restrict participation among certain households with incomes or resources above normal eligibility thresholds. Affected households are those that do not receive cash Temporary Assistance for Needy Families (TANF) benefits, but become categorically eligible for food stamps because they receive a TANF-funded service,

including one-time information and referral. This change would reduce costs by an estimated \$71 million in 2007, with additional savings in subsequent years.

The WIC request provides full funding for all those estimated to be eligible and seeking services. At the same time, the Department will work with stakeholders to contain costs and continue to improve the program's performance. WIC legislative proposals include limiting administrative funding to 25 percent of total program costs, and limiting categorical eligibility to those with incomes under 250 percent of poverty. Also, the budget proposes legislation to require 20 percent State matching for WIC administrative costs. The proposal would take effect in 2008, after State legislatures have had time to appropriate the matching funds. WIC is one of the few Federal programs that does not require States to provide matching funds for administrative costs.

The 2007 budget does not request funding for the Commodity Supplemental Food Program (CSFP), which is not available nationwide and duplicates two of the Nation's largest Federal nutrition assistance programs – Food Stamps and WIC. Eligible women, infants and children participating in CSFP will be encouraged to migrate to the WIC Program. Eligible elderly CSFP recipients will be encouraged to migrate to the Food Stamp Program, where most are believed to be eligible. The budget includes temporary transitional benefits for CSFP participants 60 years of age or older equaling \$20 per month for the lesser of 6 months or until the recipient starts participating in the Food Stamp Program.

Department Management

The 2007 budget builds upon our progress in improving overall management of the Department. Increased funding is being sought for selected key priorities:

- Beginning the acquisition of a modern core financial system to replace USDA's outdated system, which is no longer supported by a vendor. The current system relies on software that no longer meets financial management standards. The adoption of technology that meets these standards will increase the efficiency of the system, allow for less costly updates and strengthen internal controls.
- Completing the expansion of the successful Equal Employment Opportunity complaints processing system to include complaints of discrimination levied by participants in the Department's programs.
- Continuing renovations of USDA facilities in order to ensure that employees and customers have a safe and modern working environment.

Over the course of the past year, USDA has continued to achieve success in implementing the President's Management Agenda (PMA). The PMA focuses our efforts on those things that are most critical to good management, including sound financial systems, innovative uses of IT, and ensuring the effective use of human

resources. A major part of this effort has been the use of Program Assessment Rating Tool (PART) to inform funding and management decisions. Under PART, USDA has evaluated 70 programs and developed plans to improve their performance. These improvement plans are available to the public on the recently released ExpectMore.gov website. The website provides the public with easily accessible information about Federal programs, their performance, and actions the Administration is taking to improve performance in the coming year. The website is a new tool to help increase transparency and accountability in Federal programs.

In summary, I want to emphasize that the President is serious about reducing the deficit to help maintain strong economic growth. This budget sets clear priorities for U.S. agriculture, conservation, and nutrition while responsibly restraining spending. This budget puts us in the right direction for reducing the deficit and protecting future generations of American producers by establishing the foundation for a strong economy.

That concludes my statement. I look forward to working with members and staff of the Committee and will be glad to answer questions you may have on our budget proposals.